



About Angel Investing

The term "angel" originally comes from Broadway, where it was used to describe wealthy individuals who provided money for theatrical productions.

Angel investors are often retired entrepreneurs or executives, who may be interested in angel investing for reasons that go beyond pure monetary return. Thus, in addition to funds, angel investors can often provide valuable management advice and important contacts. Due to the fact that there are no public exchanges listing their securities, private companies meet angel investors in several ways - everything from referrals from the investors' trusted sources and other business contacts to investor conferences and symposia, and most commonly at meetings organized by groups of angels where companies pitch directly to investor in face-to-face meetings

Angels typically invest their own funds, unlike ventures capitalists who manage the pooled money of others in a professionally-managed fund.

Angel capital fills the gap in start-up financing between "friends and family", who provide seed funding and formal venture capital. Although it is usually difficult to raise more than a few hundred thousand dollars from friends and family, most traditional venture capital funds are usually not able to make or evaluate small investments under \$1–2 million. Thus, angel investment is a common second round of financing for high-growth start-ups, and accounts in total for almost as much money invested annually as all venture capital funds combined, as but into more than 60 times as many companies

Angels Provide ~90% of Outside Equity for Startups	
Angel Investors (2013)	Venture Capital (2013)
<ul style="list-style-type: none">• \$24.8 billion• 71,000 deals• 32,000 seed• 29,000 early stage• 9,200 expansion• > 298,000 individuals	<ul style="list-style-type: none">• \$29.6 billion• 4,050 deals• 120 seed• 1,375 early stage• 2,550 later/expansion• 548 active firms

Sources: Center for Venture Research/ UNH; NVCA 2014 Yearbook; PwC MoneyTree

While more readily available than venture financing, it is still extremely difficult to raise angel investment. However some new models are developing that are trying to make this easier.

Angel investments bear extremely high risks and are usually subject to dilution from future investment rounds. As such, they require a very high return on investment. Because a large percentage of angel



investments are **lost completely** when early stage companies fail, professional angel investors seek investments that have the potential to return at least ten or more times their original investment, through a defined exit strategy. While the investor's need for high rates of return on any given investment can thus make angel financing an expensive source of funds, cheaper sources of capital, such as bank financing, are usually not available for most early-stage ventures

Angel Investing in New Mexico

New Mexico Angels, Inc. is the regional network of angel investors in New Mexico. New Mexico Angels have sixty accredited investors in their network. They review over 250 investment deals on a yearly basis, they screening 50 companies each year, they have 8-10 companies present to their membership each year and invest in 3-5 companies each year.

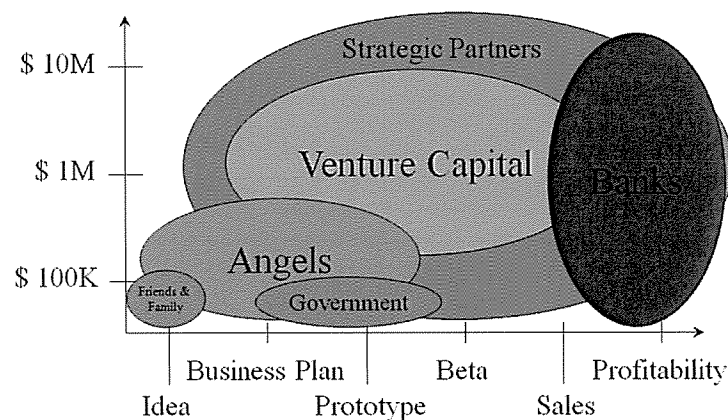
- Average investment is \$100,000 to \$400,000
- Amount of investment from New Mexico Angels group in 2013- \$1,400,000
- Number of New Mexico companies: Six
- New Mexico Angels have invested in notable New Mexico companies such as:
 - Acoustic Cytometry Inc. – Medical Device company acquired by Invitrogen
 - Exagan Diagnostic Inc. – RNA diagnostics company filed to go public
 - Advent Solar Inc. – Advanced solar cells developed at Sandia closed down
 - SAMBA Safety Inc. – Risk management services acquired by private equity
 - Ztec Inc. – Wire test products acquired by Lite Point
 - Preferred Produce Inc. – Organic Green houses in Deming
 - And many others!

There are many other angels investors in New Mexico that have funded other start-up companies.

Angel investing is crucial to the start-up ecosystem.

Start Up companies are usually funded the following manner:

Entrepreneur → Friends and Family → Micro Lenders → Angel Investors → Venture Capital funds





Current State of the New Mexico Angel Tax Credit:

- Angel Investment Credits that can be issued to an aggregate \$750,000
- Angel Tax Credit percentage is 25% of an eligible angel investment
- Investor can take up to \$25,000 angel tax credit on \$100,000 in qualified investments
- Investor can take the tax credit on two qualified investments
- The Angel Tax Credit can be carried forward for three years
- Angel Tax Credit Sunsets on December 31, 2016
- The Angel Tax Credit is non-refundable credit and taxpayer must incur a New Mexico tax liability to utilize the credit.

Proposed Enhancement to the NM Angel Tax Credit:

- Angel Investment Credits that can be issued to an aggregate \$2,000,000
- Angel Tax Credit percentage remains 25% of an eligible angel investment
- Investor can take up to \$62,500 angel tax credit on \$250,000 in qualified investments
- Investor can take the tax credit on five qualified investments
- The Angel Tax Credit can be carried forward for five years
- Angel Tax Credit Sunsets on December 31, 2024

Qualifications of Companies apply for the New Mexico Angels Tax Credit

In order for an activity to qualify for an Angel Investment Credit, the research must meet all the requirements as described in section 41(d) of the Internal Revenue Code. Under section 41(d), the term "qualified research" means research:

1. With respect to which expenditures may be treated as expenses under section 174, (also known as the section 174 test);
2. Which is undertaken for the purpose of discovering information which is technological in nature, (also known as the discovering technological information test);
3. The application of which is intended to be useful in the development of a new or improved business component of the taxpayer (also known as the business component test); and
4. Substantially all of the activities of which constitutes elements of a process of experimentation for a qualified purpose (also known as the process of experimentation test).

To be considered "qualified research", the taxpayer must be able to establish that the research activity being performed meets ALL four of the above tests. These tests must be applied separately to each business component of the taxpayer.



Notes



Presentation Overview

- The small company financial ecosystem
- Introduction to Angel Investing
- About the New Mexico Angels



Small Company Financial Ecosystem

• Funding sources:

- Entrepreneur funds company (bootstrapping)
- Friends and Family
- Micro Lenders
- Crowdfunding
- Angel Investors
- Super Angel Funds
- Seed-GAP Venture Funds
- Venture Capital Funds



Angel Investing

- High Risk/High Reward (return)
- Angels make equity investments of less than \$500K and usually purchase less 20% of company funded.
 - NMA is not a fund; individual investors decide which deals they are interested in, then they invest jointly
- Return is realized when company is sold and money distributed.



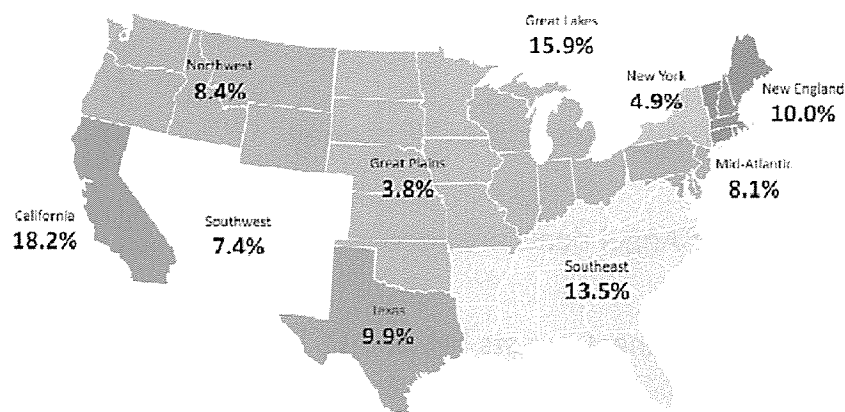
Angel Investing Stats in 2014

- \$24.1 Billion in investments in 2014
- 73,400 companies received funding from 316,600 angel investors
- Angel dollars allowed for the creation of 264,200 new jobs
- 185 Angel groups are members of the Angel Capital Association



Cumulative Angel Investment **dollars** by Region, 2010-2015 YTD

While CA and New England have a consistent 28% of the dollars over the last 5 years, Great Lakes has been increasing significantly.



Angel Investing

- ◎ What Angels Are Good At?
 - Having lunch and drinking coffee!
- ◎ Why Is This Important?
 - Angel investors are the front-line educators of entrepreneurs who want to utilize outside capital in their companies.



Angel Investing - Stats

- ◎ 1 in 10 start-ups obtains Angel financing
- ◎ 1 in 10 Angel deals sees VC money
- ◎ 80% of Angel deals are seed or early stage
- ◎ A single Angel invests between \$10,000 to \$100,000
- ◎ The usual size of an Angel investment deal is \$100,000 to \$500,000



Angel Investing

- ◉ Angel investors comprise of wealthy individuals. Many Angel investors are “been-there, done-that” entrepreneurs.
- ◉ Angel investors usually have a portfolio of investments. Their Angel investments are a way to diversify their portfolio.
- ◉ Most Angel investors invest in their own backyard. They know the people, they know the eco-system



Angel Investing

- ◉ Angel investors do not want to control the companies in which they invest. However, they do like to influence the company.
- ◉ Angel investors usually take 2 – 4 months to process an investment.



About the New Mexico Angels

- Founded in 2003 , a 501-c-6 Tax exempt business service organization
- 60 + high-net worth individuals as core members
- 12 industry service providers as corporate members (Banks, Legal, CPA, Marketing)
- Early investors in New Mexico Companies such as Advent Solar, Comet Solutions, ApJet, Knowledge Reef, Exagen, and Preferred Produce.

**CUMULATIVE INVESTMENT SINCE 2008:
\$9.6 MILLION**



NMA's Broad Funding Approach

- New Mexico Angel funded Companies
 - Acoustic Cytometry Systems: Medical Device
 - Vista Therapeutics: Nano Bio-Science
 - The Teaspot: Retail
 - Preferred Produce: Retail & Agriculture
 - Zocere Inc.: Stroke drug
 - Vibrant Corp: Aircraft testing services
 - Precision Optics Metrology: Medical device



NMA – By the Numbers

- ⦿ Number of investments and dollars invested
 - 2008: 7 investments; \$1.31 million
 - 2009: 6 investments; \$750,000
 - 2010: 5 investments; \$562,000
 - 2011: 5 investments; \$1.3 million
 - 2012: 2 investments; \$1.6 million
 - 2013: 5 investments; \$1.41 million
 - 2014: 4 investments; 1.36 million
 - 2015: 6 investments; 1.31 million

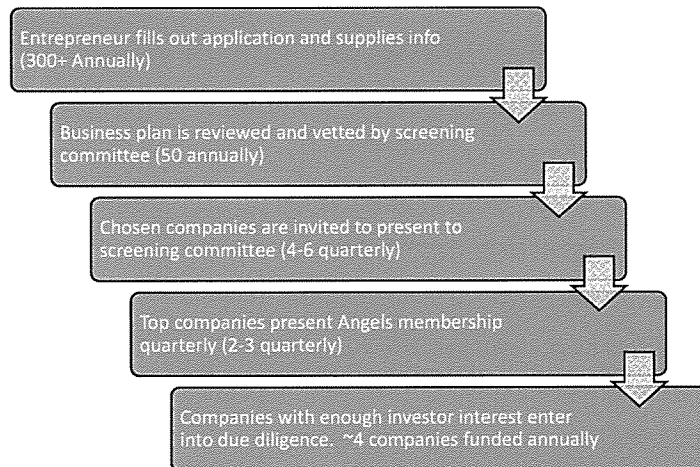


What NMA Looks for in a Company

- ⦿ Barriers to entry such as patents, trade secrets or other proprietary advantage.
- ⦿ A solid management team.
- ⦿ A scalable product or service that provides large amount of revenue in the short timeframe.
- ⦿ A desire for advice and coaching.
- ⦿ A potential return that will provide a 10X return during the life of the investment, 3-5 years.



New Mexico Angels - Process



New Mexico Angel Tax Credit Pre 2014

- Twenty Five percent tax credit for investments in certified angel deals.
- Total Amount of credit available per year \$750,000.
- Investors limited to \$25,000 in total credit per year.
- Investors limited to two deals per year.
- Unused credit could be carried forward 3 years.
- Must have NM tax liability to utilize credit



New Mexico Angel Tax Credit Enhancements 2015

- ⦿ Twenty Five percent tax credit for investments in certified angel deals.
- ⦿ Total Amount of credit available per year \$2,000,000.
- ⦿ Investors limited to \$62,500 in total credit per year.
- ⦿ Investors limited to five deals per year.
- ⦿ Unused credit could be carried forward 5 years.
- ⦿ Must have NM tax liability to utilize credit



New Mexico Angel Tax Credit Enhancements 2015

Thank you for your
support on this
legislation



New Mexico Angel Tax Credit Enhancements 2015

Next steps:

Let the 2015 legislation
take effect and see how
the change in the credit
impacts the eco-system



New Mexico Angel Tax Credit Enhancements 2015

Next steps:

Revisit Angel Tax Credit
in the 2017 Legislative
session with data impact
of the 2015 changes.

